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How COVID-19 is affecting the oil industry

Introduction

The oil and gas industry is the primary source of global energy needs. It accounts for 57% of the world's total energy consumption. (*BP Statistical Review of Global Energy, 2019*)

Since the invention of the internal combustion engine, the world has seen a rapid increase in oil consumption.

However, the novel coronavirus has disrupted the industry as it has never been before. We have seen market collapses, but the oil industry somehow always managed to bounce back. Oversupply combined with a massive halt in international travel and reduced economic activity, the oil price hit the lowest record in 30 years. (*McKinsey*) The effect of Covid-19 on the oil industry is immense, and there is no doubt that the consequences will be felt for many years after. The question is, how will the industry come out of this pandemic?

Abstract

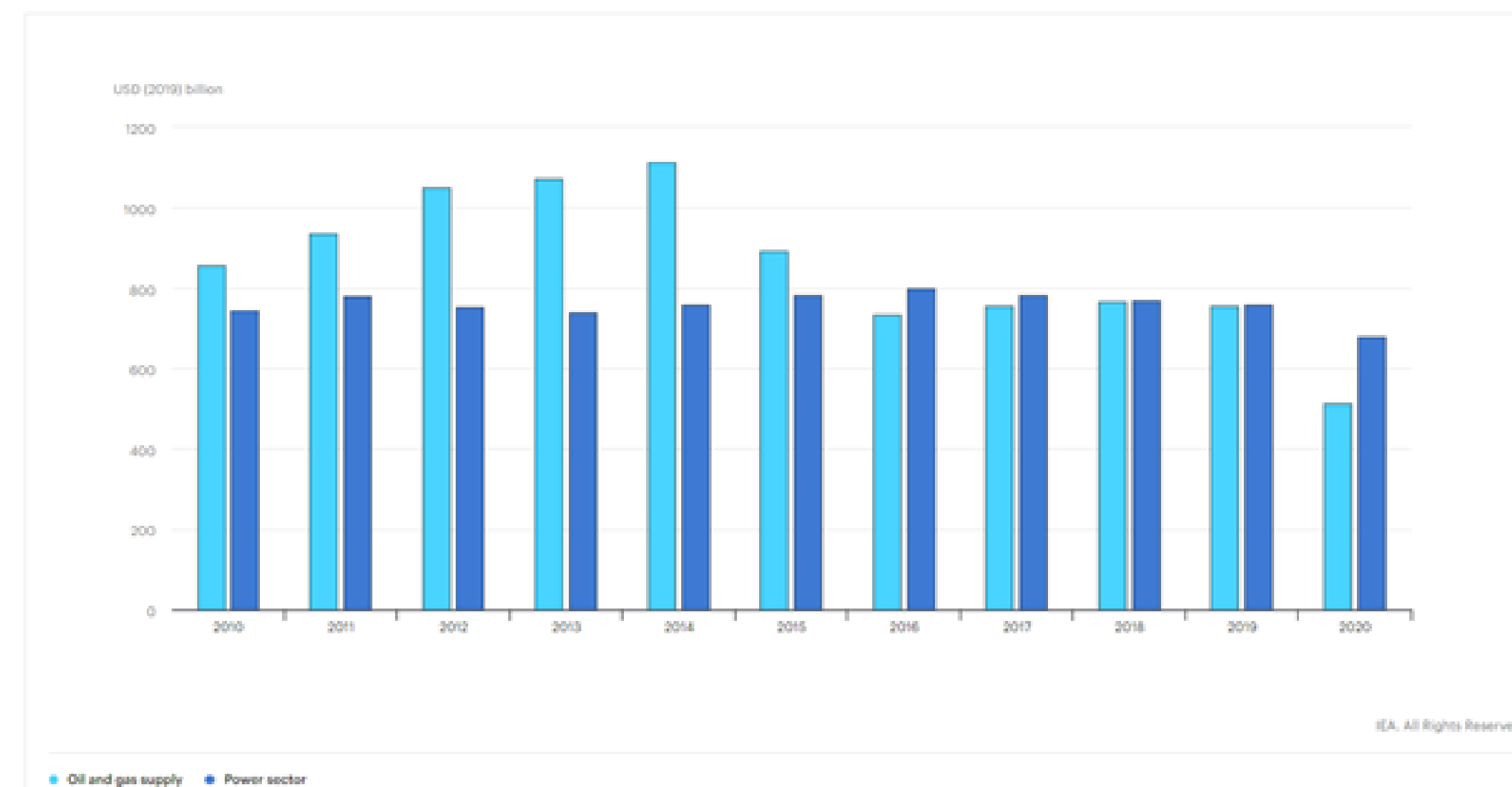
This poster briefly explores how the COVID-19 affected the oil and gas industry and what challenges it posed.

Global investment in energy supply, 2010-2020

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Main point 1

Once the countries started enforcing lockdowns in the first quarter of 2020 due to COVID-19, the number of international and local travels dropped sharply. However, this drop did not match oil production.

A massive mismatch between the newly dropped demand and the ongoing production supply resulted in a price drop and, most importantly, inventory accumulation (see chart 1). According to the U.S. Energy Information Administration, total global oil inventory increased by almost 1.3 billion barrels from January to April. Experts started getting concerned about our ability to store this increasing supply. Moreover, in April, this oversupplied oil in market led to something phenomenal. In the USA, the oil price hit negative price for the first time in history.

Main point 2

With countries lifting the lockdowns, oil demand is rising back up again slowly. Although, this is a good news for oil companies, it is too early to predict when the next dip will come. Many health experts are warning against the second wave of COVID-19, which means companies will need to adapt their production rate in a short amount of time with lower costs. Supply-demand outcome will shape the industry future for the next few years but the biggest challenge still lies ahead with investors considering renewable energy as the better alternative for the longterm.

Conclusion

The industry is tackling this challenge with great strength. This crisis will have a long-lasting impact on the industry, both in short and long term. Although the pandemic presented the sector with many new challenges, it is now up to the industry stakeholder how they will use this as opportunity and reshape itself to move to a cleaner and more sustainable practice.

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